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December 14, 2010

AGENDA ITEM 4a

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** Self-Funded Health Plans Third Quarter 2010 Financial Report
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Information Only
- IV. BACKGROUND:**

This report is to provide the Health Benefits Committee with an update on the financial status for the six (6) CalPERS self-funded Preferred Provider Organization (PPO) health plans for the quarter ending September 30, 2010.

The overall financial position of the self-funded health plans remains stable. The ongoing financial results for the program assets are positive, providing assurance that the rates approved by the Board for the 2010 plan year were sufficient to fund benefits and to maintain adequate reserves.

V. ANALYSIS:

At the end of the third quarter of 2010, the actual overall combined loss ratio for the self-funded health plans was seven (7) percent above break-even. This compares to four (4) percent above break-even at the end of calendar year 2009 after adjusting for the effects of the premium holiday; six (6) percent above break-even for the first quarter of 2010; and seven (7) percent above break-even for the second quarter of 2010. Trends in the claims experience that had been increasing during 2009 peaked during the first quarter of 2010, and have remained fairly level through 2010.

There was an actual overall underwriting loss of \$90.2 million for all six (6) self-funded health plans. However, this loss is expected because the 2010 rates were calculated based on a spend-down of excess reserves.

Assets for the program are currently \$592.9 million, which is an increase of \$5.3 million over the assets at the end of 2009. Total reserves for the program are \$388.1 million, which is a decrease of \$10.6 million over the reserves at the end of 2009. Actual assets above the actuarial reserve requirements are therefore \$204.8 million, which is an increase of \$15.9 million for the first nine months of 2010. The increase is due to continued strong pharmacy rebates and investment income. Overall, the self-funded health plans have a ratio of assets to reserves of 153 percent.

In summary, the fund is solvent, and we will continue to monitor the claims experience carefully.

Attachments 1 through 7 provide key graphical analyses of financial and historical data. Appendices A, B, C, D, and E display background data used to generate the analyses in Attachments 1 through 7.

Attachment 1

This attachment presents the loss ratios for each plan. All plans except PERS Select Basic produced an underwriting loss. The loss ratios are similar to the first and second quarters of 2010.

Attachment 2

This attachment displays summary results for the underwriting gain or loss. PERS Select Basic produced an underwriting gain. The other plans produced underwriting losses.

Attachment 3

This attachment presents the per-member-per-month (PMPM) medical and pharmacy claims costs for the last 13 quarters beginning with the second quarter of 2007.

Attachment 4

This attachment displays the medical and pharmacy trends. In the basic plans, the PERS Care medical trend has decreased slightly from last quarter, while the PERS Choice medical trend has dropped down into the single digits, after being between 10 and 15 percent during 2009. The PERS Select trend now appears to be tracking the Choice trend. The pharmacy trend for Care continues to increase while the Choice trend is level. For the supplemental plans, both medical and pharmacy trends are level or decreasing.

Attachment 5

This attachment presents assets and reserves for the self-funded health plans. Assets exceed reserves for all plans except the PERS Select Supplement to Medicare plan. Total program assets exceed total program reserves by \$204.8 million.

Attachment 6

This attachment highlights the relative strength of the assets compared to the actuarial reserve. The overall levels of the assets in the self-funded health plans remain positive and indicate that assets and reserves are adequate to cover program liabilities.

Attachment 7

This attachment shows the overall enrollment trends for the six (6) self-funded health plans. Enrollment in PERS Care continues to decline as enrollment has shifted to PERS Choice and PERS Select. Overall, the enrollment is very stable.

VI. STRATEGIC PLAN:

This agenda item directly relates to Strategic Goal #10: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VII. RESULTS/COSTS:

There is no cost associated with this agenda item.

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Attachments